



City of Saint Paul

Randy C. Kelly, Mayor

*160 City Hall
15 West Kellogg Boulevard
Saint Paul, Minnesota 55102-1658*

*Telephone: (651) 266-8800
Facsimile: (651) 266-8541*

September 26, 2003

Council President Dan Bostrom, and
City Councilmembers
3rd Floor City Hall
15 West Kellogg Boulevard
St. Paul, MN 55102

Subject: Material for the October 1st Budget Meeting

Dear Council President Bostrom and City Councilmembers:

The attached material has been prepared for your use as background, and will be used by presenters at next Wednesday's meeting. Please bring this packet with you to the meeting. The agenda is:

- I. Review Financing Plan Detail For Mayor's Proposed Lexington Branch Library Construction Budget: (Matt Smith and Peter Butler)

Please see pages 3 through 6.

- II. Option Analysis: General Obligation Library Bonding For Lexington Branch Library Versus Lease Financing For Downtown Fire Station: (Matt Smith, Todd Hurley, Greg Blees)

Information will be distributed on Tuesday, September 30.

- III. Analysis: Outstanding General Obligation Debt Versus City's Legal Debt Margin: (Matt Smith and Todd Hurley)

As of December 31, 2002:

Total Gross General Obligation Debt	207,008,620
Statutory Debt Limit	517,737,639
Statutory Net Debt (General Obligation debt subject to the statutory debt limit)	85,335,000
Legal Debt Margin	432,402,639

Please see page 7.

IV. City Councilmembers To Identify Their Specific Concerns Regarding Capital Improvement Projects That Are Proposed To Be Postponed Or Eliminated

Information related to questions raised about the R.S.V.P was distributed to Councilmembers on Wednesday, September 25th. Additional information related to the impact of the Mayor's proposed reductions in CIB committee recommendations is attached. Please see pages 8 through 10.

V. City's ½% Sales Tax Program (Matt Smith):

A) Revised Total Revenue Estimate For 2003 Budget (tax, program income, interest).

The revised estimates indicate total revenues will be \$461,000 more than budget due to higher than anticipated program income (several loans were paid off earlier than expected because the borrowers refinanced at lower interest rates through another source). The revised interest earnings are under budget. Tax receipts are assumed to remain at budget. Please see page 11.

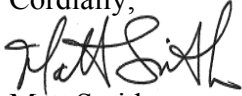
B) Projected Total Revenue Estimate For 2004 Budget (tax, program income, interest).

The Round 2 budget amendment and the Mayor's Proposed 2004 budget used estimates from March, 2003. We've revised these estimates, which show a \$739,000 shortfall from the March 2003 estimates and the Mayor's spending plan. The shortfall is due to lower program income because of the higher rate of loan pay-offs in 2003, and substantially lower interest earnings because \$10 million of Neighborhood STAR fund balance may be transferred to banks as backing for the HRA's housing bonds under the Housing 5000 program. Please see page 12

C) Distribution Estimates for 2003 and 2004:

- 1) RiverCentre Debt Service and Loan Repayments,
- 2) Cultural STAR Program,
- 3) Neighborhood STAR Program,
- 4) City's General Debt Service Fund.

Please see pages 11 and 12.

Cordially,

Matt Smith
Director

cc: Dennis Flaherty, Deputy Mayor
Greg Blees, City Council Fiscal Policy Director
Budget Analysts
Department Directors

Lexington Library Financing Recommendation

Summary

The Mayor's 2004 proposed Capital Improvement Budget includes a new Lexington Outreach Branch Library to be constructed at a total cost of \$8.978 million. Funding as recommended in the CIB budget book is summarized in the following table:

<i>Funding year</i>	<i>Project/source</i>	<i>(\$1,000)</i>
2003	Rice Street Library CDBG savings (funds already in hand for design)	300
2004	Re-allocate 2003 CIB funds from the 2003 RSVP program	854
2004	Central Library Construction Account interest earnings	100
2004	Re-allocate Griggs Recreation Center project CDBG funds	672
2004	Rice Street Library CDBG savings (in addition to savings listed above)	304
2005	Capital Improvement Bonds	4,000
2006	Sale of current library site	300
2006	Capital Improvement Bonds	1,500
2007	Capital Improvement Bonds	948
	<i>Total</i>	<i>8,978</i>

Managing cash flow needs

Current estimates indicated a need of \$3.8 million in construction costs in 2004 and the remainder in 2005. Short-term financing will be needed until the final installments of CIB proceeds are available in 2007. The financing plan assumes a \$2.75 million internal loan at the current "pool" interest rate, to be repaid from a combination of sale proceeds from the existing library site and 2006 and 2007 CIB proceeds. Interest costs for the internal loan (payable back to the City's Internal Loan Fund (070)) are assumed to be borne by the Library Agency budget between 2005 and 2007.

Description of financing sources

Rice Street Library CDBG savings This project is completed, and provides \$604,000 in unused project balances for the Lexington Library project. The Council approved a budget amendment on September 11, 2002 (Resolution - 02-839) that transferred \$300,000 in Community Development Block Grant funds from the Rice Street Library project for predesign of a proposed new Lexington Library. An additional \$304,000 became available in July 2003.

Re-allocate 2003 CIB funds from 2003 Residential Street Vitality Pavement Program In early 2003, in the face of potentially large state aid reductions, Public Works and Parks were asked to identify potential reductions in their uncommitted CIB project balances. As a result, the Mayor decided to reduce the 2003 RSVP program by \$1 million. This reduction was achieved by canceling the Seventh-Daly project, which is now scheduled for 2004. Of the \$1 million, \$854,000 would be reallocated to the Lexington Library project.

Central Library Construction Account interest earnings This project is completed, and provides \$100,000 in unused construction account interest earnings.

Re-allocate Griggs Recreation Center project CDBG funds. In 2001, \$730,000 in CDBG funds were budgeted for expanding and renovating this recreation center. In January 2003, based on the recommendation of the Parks and Recreation Director, the Mayor suspended work on the project due to concerns about future operating costs and how this project fit into the overall recreation program. With the Recreation Center Service Needs Study now completed and Parks and Recreation budget and staff being reallocated to based on those recommendations and the prioritization of needs, the recommendation is that the Griggs expansion project be officially canceled and the unspent funds of \$672,000 be redirected to the Lexington Library project.

Sale of current library site The current Lexington Library is located near the Southeast corner of University and Lexington avenues. Planning and Economic Development staff estimate the library site could sell for \$300,000. It is presumed that the sale would occur by December 31, 2005.

2005-07 Capital Improvement Bonds The City would allocate \$6,448,000 of CIB funds from the 2005-2007 CIB bond sales for the new library (\$4 million in 2005, \$1.5 million in 2006 and \$948,000 in 2007). The City will “cash flow” the 2004 and 2005 construction expenses through two interfund loans totaling \$2,748,000.

The 2006 and 2007 CIB funds and current site’s sale will repay the loan. A \$1.62 million loan would be taken in October 2004 and a \$1.13 million loan taken in January 2005. In January 2006, \$300,000 of the loan would be repaid by selling the current library site. CIB funds of \$1.5 million will repay more of the loan in April 2006. CIB funds will repay the remaining \$948,000 in April 2007.

The project budget excludes the internal loan’s estimated \$250,000 interest expense, calculated to be \$159,254 in 2005, \$74,540 in 2006, and \$15,899 in 2007. The Mayor’s proposed 2005-2007 Library Agency budgets will identify the interest expense funding source. The interest expense is calculated at the prevailing “pool” interest rate during the loan’s term, and a 5% rate was used for these estimates. The interest estimates will change if the interest rate changes, or if the timing of initiating the loan or making repayments are changed.

**Mayor's Proposed Budget
Lexington Library Financing Detail**

	2003	2004	2005	2006	2007	Totals
Uses						
Design, construction, furnishings, equipment	61,267	3,788,235	5,128,498			8,978,000
Interfund loan repayment				1,800,000	948,000	2,748,000
Sources						
CDBG-Rice Street balance (already reallocated)	61,267	238,733				300,000
CIB-2003 RSVP "frozen balance"		854,000				854,000
Central Library Construction Account interest earnings		100,000				100,000
CDBG-remaining Rice St Library balance		304,000				304,000
Griggs Recreation Center cancellation		672,000				672,000
Internal fund loans (Oct 1, 2004 and Jan 1, 2005)		1,619,502	1,128,498			2,748,000
CIB bonds (April 1 of 2005, 2006, and 2007)			4,000,000	1,500,000	948,000	6,448,000
Current site sale (proceeds received by Dec. 31, 2005)				300,000		300,000
Total for sources	61,267	3,788,235	5,128,498	1,800,000	948,000	

**Office of Financial Services
Lexington Library Financing
Internal Borrowing Fund Loan**

LOAN AMOUNT	\$ 2,748,000
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Date	Borrowed	Internal Loan Balance	5.0% Interest	Interest Paid	Principal Repayment	Total Outstanding (end of month)
09/01/04		\$ -	\$ -			\$ -
10/01/04	\$ 1,619,502	\$ 1,619,502	\$ 6,748			\$ 1,626,250
11/01/04		\$ 1,626,250	\$ 6,776			\$ 1,633,026
12/01/04		\$ 1,633,026	\$ 6,804			\$ 1,639,830
01/01/05	\$ 1,128,498	\$ 2,768,328	\$ 11,535	\$ 20,328		\$ 2,759,535
02/01/05		\$ 2,759,535	\$ 11,498			\$ 2,771,033
03/01/05		\$ 2,771,033	\$ 11,546			\$ 2,782,579
04/01/05		\$ 2,782,579	\$ 11,594			\$ 2,794,173
05/01/05		\$ 2,794,173	\$ 11,642			\$ 2,805,815
06/01/05		\$ 2,805,815	\$ 11,691	\$ 69,506		\$ 2,748,000
07/01/05		\$ 2,748,000	\$ 11,450			\$ 2,759,450
08/01/05		\$ 2,759,450	\$ 11,498			\$ 2,770,948
09/01/05		\$ 2,770,948	\$ 11,546			\$ 2,782,493
10/01/05		\$ 2,782,493	\$ 11,594			\$ 2,794,087
11/01/05		\$ 2,794,087	\$ 11,642			\$ 2,805,729
12/01/05		\$ 2,805,729	\$ 11,691	\$ 69,420		\$ 2,748,000
01/01/06		\$ 2,748,000	\$ 11,450		\$ 300,000	\$ 2,459,450
02/01/06		\$ 2,459,450	\$ 10,248			\$ 2,469,698
03/01/06		\$ 2,469,698	\$ 10,290			\$ 2,479,988
04/01/06		\$ 2,479,988	\$ 10,333		\$ 1,500,000	\$ 990,321
05/01/06		\$ 990,321	\$ 4,126			\$ 994,448
06/01/06		\$ 994,448	\$ 4,144	\$ 50,591		\$ 948,000
07/01/06		\$ 948,000	\$ 3,950			\$ 951,950
08/01/06		\$ 951,950	\$ 3,966			\$ 955,916
09/01/06		\$ 955,916	\$ 3,983			\$ 959,899
10/01/06		\$ 959,899	\$ 4,000			\$ 963,899
11/01/06		\$ 963,899	\$ 4,016			\$ 967,915
12/01/06		\$ 967,915	\$ 4,033	\$ 23,948		\$ 948,000
01/01/07		\$ 948,000	\$ 3,950			\$ 951,950
02/01/07		\$ 951,950	\$ 3,966			\$ 955,916
03/01/07		\$ 955,916	\$ 3,983			\$ 959,899
04/01/07		\$ 959,899	\$ 4,000	\$ 15,899	\$ 948,000	\$ 0
	<u>\$ 2,748,000</u>		<u>\$ 249,692</u>	<u>\$ 249,692</u>	<u>\$ 2,748,000</u>	

Interest costs by year

2005	\$ 159,254
2006	\$ 74,540
2007	\$ 15,899
Total	<u>\$ 249,692</u>

COMPUTATION OF LEGAL DEBT MARGIN - December 31, 2002

TOTAL GROSS GENERAL OBLIGATION DEBT			\$207,008,620
DEDUCTIONS: (Pursuant to Minnesota Statutes and City Charter)			
General Obligation Bonds:			
A.	Appropriations available for 2002 maturities within debt limit:	\$	-
B.	2002 appropriations available for 2003 maturities within debt limit:	\$	15,915,000
C.	Outside debt limit (legislated)	\$	58,625,000
D.	Outside debt limit, revenue supported	\$	47,133,620
TOTAL ALLOWABLE DEDUCTIONS			\$ 121,673,620
TOTAL STATUTORY NET DEBT (TSND)			85,335,000
STATUTORY DEBT LIMIT (SDL) (see computation below)			<u>\$517,737,639</u>
MARGIN FOR FUTURE BOND ISSUES (SDL-TSND)			\$432,402,639

COMPUTATION OF STATUTORY DEBT LIMIT 2002 payable 2003

2002 Real Property Value	\$15,246,089,400
2002 Personal Property Value	<u>286,055,300</u>
2002 Market Values for Statutory Debt Limitation, of all Taxable Property Determined by the County Auditor)	<u>\$15,532,144,700</u>
2002 Statutory Debt Limit (3 1/3 of the Market Value for Debt Limitations pursuant to Minnesota Statutes and City Charter) 0.0333333	\$517,737,639

Impact of Mayor's Proposed Reductions in CIB Committee recommendations

September 26, 2003

- Jimmy Lee Recreation Center/Oxford Pool (\$200K reduction in CIB in 2004, \$850K reduction in CIB in 2005. No 2006-08 estimates pending completed design in 2004, but total project is not to exceed \$9.5 million)

This project has received \$4.6 million from the 1998-2003 CIB budgets for property acquisition and clearing, which will be completed this year. The Parks and Recreation Department had submitted to the CIB Committee a \$14.5 million facility proposal, with financing spread over 2004 to 2007. The CIB Committee recommended \$450,000 in 2004 and \$1.860 million in 2005, and the remaining amounts in 2006-08.

The Mayor is proposing \$250,000 in 2004 for the initial design work that would refine the project for both construction and operating costs and \$1 million in 2005 to start this phase of the project. The Mayor proposes that the additional total project costs not exceed \$9.5 million for the recreation center, providing the community with a recreation center comparable to other neighborhoods'. The CIB Committee's recommendation was based on the Parks and Recreation Department's initial request, which the Mayor does not support because of the high project cost and lack of preliminary design and plans.

- Highland Picnic Area Renovation (\$204K reduction in CIB in 2004)

This project received \$930,000 in the 2003 adopted budget, which had a tentative 2004 amount of \$1.679 million, for a total of \$2.609 million. For the 2004 budget, Parks and Recreation requested \$1.778 million, a \$99,000 increase for a bike/pedestrian trail from Highland Park to Samuel Morgan Trail via Montreal Avenue. The CIB Committee recommended the \$1.778 million for 2004.

When the Parks and Recreation Department submitted this project through the 2001 CIB Process, the project had not been designed. The budget reflected the Parks staff's best estimates based on past experience rather than a particular design. For example, the proposal had an allowance for landscaping based on 200 trees. If the Mayor's Proposed budget is adopted, the project may have 150 trees. Parks staff are conducting this project's design phase so cannot identify specifically what would not be accomplish. If the project is reduced, Parks staff would minimize the impact by reducing spending in areas that people might not notice (landscaping, walks, fencing).

- CIB contingency (\$50K reduction in 2004)

The Committee recommended \$250,000, based on the Office of Financial Service's annual request for that amount. These funds are used for unforeseen costs or problems on approved projects. Contingency amounts in recent adopted budget were:

2003: \$0	2000: \$0
2002: \$50K	1999: \$250K (included use of CIB interest earnings)
2001: \$2K	1998: \$250K (included use of CIB interest earnings)

During a year, completed projects with surplus balances are closed-out and amounts transferred to that year's contingency balance. For example, the 2002 adopted budget's \$2,000 was supplemented by \$30,000 from closed-out project balances.

- Tree Planting program (\$50K reduction in CIB in 2004 and 2005)

In 2002 and 2003 (estimate), Parks planted about 1,500 replacement trees with \$350,000 per year. Parks staff estimate that the Mayor's proposed budget would fund 1,200 tree plantings.

- Capital Maintenance program (\$100K reduction in CIB in 2004)

This program provides for major capital maintenance on city-owned and long-term leased buildings. Amounts in recent adopted budget were:

2003: \$1.065M	2000: \$920K
2002: \$810K	1999: \$500K
2001: \$1M	1998: \$1M

During a year, completed projects with surplus balances are closed-out and amounts transferred to other unfunded projects or used to supplement next year's capital maintenance allocation. For example, this year the Parks and Recreation Department had 1999, 2000, and 2002 balances that were used to fund two high priority projects totaling \$95,000 that the CIB Committee recommended for funding if it became available. Parks probably would have requested funds for these two projects in 2004.

- Residential Street Vitality Paving (RSVP) Program (\$519K reduction in 2005. 2006-08 set at \$7M of CIB each year)

Please see the John Maczko's Sept. 24, 2003 memo to Council Members, which states in part: "Until design is complete, we will be unable to prepare estimates with sufficient accuracy to say with any certainty what a reduction of \$519,000 would mean for our planned projects. Cuts increase the likelihood that the project with the least overall cost will be postponed to 2006."

- Edgewater Boulevard (\$34K reduction in CIB in 2004).

Public Works requested \$34,000 of CIB and \$1.251 million of MSA. This project ranked high enough for the CIB Committee to recommend the CIB funding, but not high enough to recommend the MSA funding (a few large MSA projects required most of the MSA funding). At Public Works recommendation, the Mayor substituted this project for the MSA-funded Downtown Streets Redesign programming so the Edgewater project could be bid in conjunction with the Case/Ruth RSVP project in the same area, saving approximately \$100K. The Mayor did not recommend the \$34,000 CIB funding. This \$34,000 would have funded expenses ineligible for MSA. For example, MSA allows only 5 percent to be spent on landscaping so the CIB funding would have covered the costs above and beyond the 5 percent.

Please see the John Maczko's Sept. 24, 2003 memo to Council Members on the importance of this project.

- Housing Real Estate Development Fund (\$25K reduction in CDBG in 2004 and \$50K in 2005)

Planning and Economic Development requested \$2 million each year, and the CIB Committee recommended \$1.175 million for 2004 and \$1.2 million for 2005. Depending on what income level is used to measure affordability (50% or 80% of median income), a subsidized unit requires \$20,000 to \$40,000 in subsidy. Potentially three fewer units would be subsidized under the Mayor's proposed budget than under the CIB Committee's recommendation.

ADOPTED SALES TAX REVENUE PROJECTIONS-2003

	RiverCentre	Neighborhood	Cultural	Totals
Sales Tax Revenue	\$5,240,000	\$6,550,000	\$1,310,000	\$13,100,000
Loan Repayments		\$1,315,000	\$20,000	\$1,335,000
RiverCentre loan repayment		\$675,000	\$135,150	\$810,150
Investment Earnings at 3.5%	\$70,000	\$809,000	\$70,000	\$949,000
Totals	\$5,310,000	\$9,349,000	\$1,535,150	\$16,194,150

Note: these figures differ from the 2003 adopted CIB Budget, which deducted the RiverCentre loan repayment from the RiverCentre's Sales Tax Revenues. The difference is how the information is shown and not in the projected revenues.

REVISED SALES TAX REVENUE PROJECTIONS - 2003

(Sept. 26, 2003 estimates)

	RiverCentre	Neighborhood	Cultural	Totals
Sales Tax Revenue	\$5,240,000	\$6,550,000	\$1,310,000	\$13,100,000
Loan Repayments	\$0	\$1,960,540	\$20,000	\$1,980,540
RiverCentre loan repayment		\$675,000	\$135,150	\$810,150
Investment Earnings	\$96,750	\$700,000	\$52,500	\$849,250
Totals	\$5,336,750	\$9,885,540	\$1,517,650	\$16,739,940

SPENDING-AMENDED 2003 BUDGET

RiverCentre Debt Service	\$4,526,600			\$4,526,600
RiverCentre Loan Repayment	\$810,150			\$810,150
Housing 5000		\$5,000,000		\$5,000,000
Transfer to General Debt Service Budget		\$3,424,500		\$3,424,500
Neighborhood STAR program		\$1,000,000		\$1,000,000
Cultural STAR			\$1,517,650	\$1,517,650
Interest earnings transfer to General Fund				\$0
Totals	\$5,336,750	\$9,424,500	\$1,517,650	\$16,278,900
Projected revenues over (under) spending	\$0	\$461,040	\$0	\$461,040

SALES TAX REVENUE PROJECTIONS - 2004

(Sept. 26, 2003 estimates)

	RiverCentre	Neighborhood	Cultural	Totals
Sales Tax Revenue	\$5,360,000	\$6,700,000	\$1,340,000	\$13,400,000
Loan Repayments		\$660,689	\$146,942	\$807,631
RiverCentre loan repayment		\$172,279	\$34,456	\$206,735
Investment Earnings at 3.5%	\$96,750	\$350,000	\$35,000	\$481,750
Totals	\$5,456,750	\$7,882,968	\$1,556,398	\$14,896,116

SPENDING-MAYOR'S 2004 PROPOSED BUDGET

(Using estimates from March 19, 2003)

RiverCentre Debt Service	\$5,250,015			\$5,250,015
RiverCentre Loan Repayment	\$206,735			\$206,735
Housing 5000		\$5,000,000		\$5,000,000
Transfer to General Debt Service Budget		\$2,621,737		\$2,621,737
Neighborhood STAR program		\$1,000,000		\$1,000,000
Cultural STAR			\$1,521,398	\$1,521,398
Interest earnings transfer to General Fund			\$70,000	\$70,000
Totals	\$5,456,750	\$8,621,737	\$1,591,398	\$15,669,885

Projected revenues over (under) spending	\$0	(\$738,769)	(\$35,000)	(\$773,769)
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TOTAL STAR TRANSFERS TO DEBT SERVICE-2004 AND 2003

2004 Proposed Budget	\$2,621,737
2003 Amended Budget	
2003 STAR Revenues	\$3,424,500
Neighborhood Invest. In. Prg. Balances	\$387,723
Completed STAR project balances	\$130,918
Completed Cultural STAR project balances	\$78,170
2002 excess STAR revenues	\$120,637
Total	\$6,763,685